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LONDON FOR AF WATCHER PETER LORD

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SUBJECT: MALAWI: CARGILL CLOSES LOCAL OPERATIONS DUE TO GOVERNMENT INTERVENTION

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¶1. (U) Summary: U.S.-based international conglomerate Cargill announced it is pulling out of Malawi's cotton sector. According to company executives, GOM's intervention in commodity markets prompted Cargill's withdrawal. Unable to operate profitably buying cotton at the GOM's mandated minimum prices during the 2009 season, the company has now determined that its operations are not viable under the prevailing conditions. With nearly half of the Malawian market, Cargill was the country's largest cotton ginner in
¶2008. End summary.

¶2. (U) Cargill announced the company is officially closing its operations in Malawi. Since acquiring Clark Cotton Malawi Ltd. in 1996, Cargill has been one of the two largest cotton ginners in the country, with 46 percent of the market. The company employed 419 permanent and 2,700 seasonal workers, and its activities in Malawi included two cotton ginning plants, which are now to be sold.

¶3. (U) Cargill's operations in Malawi included an input credit program through which the company sponsored farmers to grow cotton on contract. In the 2008/09 season Cargill invested over US$ one million in the program, supporting roughly 86,000 farmers across Malawi -- a credit program twice as large as all other ginners combined.

¶4. (U) Since 2008, the GOM has mandated minimum buying prices for cotton. The 2008 minimum price of US$ 0.46/Kg was negotiated with the buyers and reflected market trends sufficiently to allow the firms to operate profitably. The GOM set its 2009 price at US$ 0.53/Kg with no negotiation or input from the buyers. Due to generally lower global prices, Cargill notified cotton growers in Malawi in August 2009 that it could not afford to buy cotton at the government's minimum prices. Other buyers ignored the government's floor price and bought in the US$ 0.28/Kg range. Given its market share, Cargill's choice not to violate the government floor price resulted in significant stocks of unsold cotton as well as the write-off of its entire farmer credit program.

¶5. (SBU) Cargill Managing Director Franz Grey told us that in August the firm proposed to the GOM that it would provide receipts to Malawian farmers for US$ 0.53/Kg, matching the floor price, of which US$ 0.30/Kg would be provided in cash and the balance would be for free inputs for the next year. Grey said this would proposal would have enabled Cargill both to recover its investment and ensure a crop for 2010. The GOM rejected the offer, a decision Grey told us he believes came directly from President Mutharika. Grey told us that GOM Minister of Industry and Trade Eunice Kazembe was unable to tell him why Cargill was denied an export license for cotton, despite respecting the government mandate on minimum prices, while other ginners were issued licenses even though

they bought at lower prices in violation of the mandate. Over a month later Cargill has still received no explanation.

¶6. (U) In a public remarks Minister Kazembe claimed that "We did the best we could to keep (Cargill)....We can't force investors to stay." She noted that although Cargill was leaving, its ginnery equipment would remain and would still benefit the farmers. She defended the government's setting of minimum prices, saying the idea is to make sure that farmers get some profit from their product. Kazembe criticized western subsidies to farmers, which she noted is an issue under the World Trade Organization (WTO). "Support given to American farmers is too high leading to distortions in cotton prices," she said, "Excessive US cotton subsidies cause over-production and depress world prices. Our farmers cannot get good prices and yet we are being castigated."

¶7. (SBU) Comment: Cargill's withdrawal from Malawi is a direct result of the GOM's heavy-handed market intervention (reftel). Buyers tolerated the GOM's minimum prices in 2008 when they reflected international commodity prices, but with GOM floor prices well above global prices in 2009, the market intervention failed completely and left a significant number of farmers with unsold cotton. By effectively driving out Cargill, the GOM has not only lost the single largest ginner in the country, but it has caused serious damage to the entire sector. While the capital equipment may remain, it is unlikely that Malawi will easily attract a replacement for Cargill's investment in smallholder financing and support. The Cargill story will have a significant negative impact on perceptions of Malawi's investment climate.
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